MAPHUMULO LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30

General Information

Legal form of entity	Local Municipality
Mayoral committee	
Mayor	Cllr. B.P Ngcobo (IFP - Mayor 01/07/2009 - 31/08/2009) CIlr. M.L. Ngidi (IFP - Mayor 01/10/2009 - 30/06/2010) CIlr. N.S Ndlovu (IFP - Acting Mayor 01/09/2009 - 30/09/2009)
Councillors	Cllr. B. Ngubane (IFP - Exco Member) Cllr. K.P. Ninela (IFP - Speaker) Cllr. N.S. Ndlovu (IFP - Deputy Mayor) Cllr. Z.F. Khuzwayo (ANC - Exco Member)
Grading of local authority	2
Accounting Officer	Mr. V.W. Mhlongo
Chief Finance Officer (CFO)	Mr. B. Ngubane
Registered office	R74 Sakhuxolo Multi Skills Centre Maphumulo 4470
Business address	R74 Sakhuxolo Multi Skills Centre Maphumulo 4470
Postal address	Private Bag X 9205 Maphumulo 4470
Bankers	First National Bank
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SA GAAP	South African Statements of Generally Accepted Accounting Practice

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to June 30, 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on National and Provincial government. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Maphumulo Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 38, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2010 and were signed on its behalf by:

Accounting Officer
Designation

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
ASSETS			
Current Assets			
Other financial assets	10	1,820,891	13,509,000
Trade and other receivables from exchange transactions	12	2,083,086	82,292
VAT receivable	13	2,572,370	984,353
Consumer debtors	14	594,076	-
Cash and cash equivalents	26	1,214,886	3,921,765
		8,285,309	**18,497,410**
Non-Current Assets			
Investment property	8	12,342,483	12,997,836
Property, plant and equipment	7	62,923,935	34,160,329
Intangible assets	9	629,554	58,065
Long term receivables	11	78,616	71,257
		75,974,588	**47,287,487**
Non-Current Assets		75,974,588	47,287,487
Current Assets		8,285,309	18,497,410
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**84,259,897**	**65,784,897**
LIABILITIES			
Current Liabilities			
Other financial liabilities	3	635,694	774,917
Lease obligation	4	124,859	52,377
Trade and other payables from exchange transactions	5	7,521,023	3,463,074
Unspent conditional grants and receipts	6	4,700,778	5,244,518
		12,982,354	**9,534,886**
Non-Current Liabilities			
Other financial liabilities	3	8,898,177	9,922,362
Lease obligation	4	296,297	124,720
		9,194,474	**10,047,082**
Non-Current Liabilities		9,194,474	10,047,082
Current Liabilities		12,982,354	9,534,886
Liabilities of disposal groups		-	-
Total Liabilities		**22,176,828**	**19,581,968**
Assets		84,259,897	65,784,897
LIABILITIES		(22,176,828)	(19,581,968)
NET ASSETS		**62,083,069**	**46,202,929**
NET ASSETS			
Accumulated surplus		62,083,069	46,202,929

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	17	3,097,143	-
Rental of facilities and equipment		393,318	196,620
Government grants & subsidies	15	49,839,007	32,523,438
Other income	19	377,980	97,708
Interest received - investment	18	564,910	1,417,688
Total Revenue		**54,272,358**	**34,235,454**
Expenditure			
Personnel	20	(10,002,442)	(7,513,341)
Remuneration of councillors	21	(3,862,035)	(3,837,839)
Depreciation and amortisation	24	(3,391,926)	(1,672,124)
Finance costs	22	(1,141,927)	(39,072)
Auditors remuneration		(843,844)	(1,029,216)
Repairs and maintenance		(1,240,060)	(803,940)
Funded Expenditure		(2,305,574)	(1,503,795)
Bursaries & Loans		-	(26,452)
General Expenses	23	(15,604,410)	(6,206,735)
Total Expenditure		**(38,392,218)**	**(22,632,514)**
Loss on disposal of assets and liabilities		-	(1,190,945)
Revenue		54,272,358	34,235,454
Expenditure		(38,392,218)	(22,632,514)
Other		-	(1,190,945)
Surplus for the year		**15,880,140**	**10,411,995**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2008	**35,790,934**	**35,790,934**
Changes in net assets		
Surplus for the year	10,411,995	10,411,995
Total changes	10,411,995	10,411,995
Opening balance as previously reported	46,137,258	46,137,258
Adjustments		
Prior year adjustments	65,671	65,671
Balance at July 01, 2009 as restated	**46,202,929**	**46,202,929**
Changes in net assets		
Surplus for the year	15,880,140	15,880,140
Total changes	15,880,140	15,880,140
Balance at June 30, 2010	**62,083,069**	**62,083,069**

Note(s)

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Cash Receipts From Ratepayers, Government and Others		49,489,022	46,046,412
Interest Received		600,449	1,417,688
		50,089,471	47,464,100
Payments			
Cash Paid to Suppliers and Employees		(30,314,324)	(35,804,119)
Finance Cost		(1,141,927)	(39,072)
		(31,456,251)	(35,843,191)
Total receipts		50,089,471	47,464,100
Total payments		(31,456,251)	(35,843,191)
Net cash flows from operating activities	25	**18,633,220**	**11,620,909**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(31,545,909)	(14,794,653)
Purchase of other intangible assets	9	(622,330)	-
Sale of businesses		-	-
Proceeds from sale of financial assets		11,688,109	(3,346,305)
Receivable Issued		(7,359)	-
Proceeds from sale of long term receivables		-	34,528
Other non-cash item		-	-
Net cash flows from investing activities		**(20,487,489)**	**(18,106,430)**
Cash flows from financing activities			
Repayment of other financial liabilities		(1,024,185)	10,650,788
Net cash flows from financing activities		**(852,610)**	**10,650,788**
Net (decrease)/increase in cash and cash equivalents		**(2,706,879)**	**4,165,267**
Cash and cash equivalents at the beginning of the year		3,921,765	(243,502)
Cash and cash equivalents at the end of the year	26	**1,214,886**	**3,921,765**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practices (GRAP) , and including any interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. The Annual Financial Statements incorporate for the first time all GRAP statements to 30 June 2009.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

These accounting policies are consistent with the previous year except for changes in accounting policy.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand.

1.2 Going concern assumption

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property,

Accounting Policies

1.3 Property, plant and equipment (continued)
plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Depreciation/amortisation is provided on a straight-line basis which, it is estimated, will reduce the carrying amounts of the assets to their residual values at the end of their expected useful lives. The current estimated useful lives of various assets are as follows:

Item	Average useful life
Land & building	10 - 30 years
Infrustructure Assets	10 - 15 years
Plant and machinery	5 - 10 years
Furniture and fixtures	5 - 10 years
Motor vehicles	3 - 10 years
Office equipment	5 - 10years
Computer hardware	3 - 7 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Impairment

The carrying amounts of tangible and intangible assets are reviewed at each financial year end to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. An asset is impaired when its carrying amount exceeds its recoverable amount.

Accounting Policies

1.5 Disposal of Property, Plant & equipment

The gain or loss on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value of the asset on the date of disposal, and is recognised in the Statement of Financial Performance

1.6 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is commissioned into use.

1.7 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Intangible assets are carried at cost less accumulated amortisation and any impairment losses. Software is amortised on a straight-line basis over its anticipated useful life Generally, costs associated with developing computer software programs are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Municipality and have an probable benefit exceeding the cost beyond one year, are recognised as an intangible asset

Accounting Policies

1.7 Intangible assets (continued)

Expenditure which enhances and extends the benefits of computer software programs beyond the original life of the software is capitalised. Computer software development costs reconised as assets are amortised using the straight line method over their useful lives. Costs associated with the maintenance of existing computer software programs are expensed as incurred Intagible assets with an infifnite useful lives are not armotised and are recorded at cost.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software, other	3 - 7 years

1.8 Reserves

The municipality maintains no Reserves with exception of the Accumulated Surplus.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Municipality as Lessee

Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period. The property plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. Operating leases are those leases which do not fall within the scope of the above definition. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

The Municipality will not incur a foreign currency lease liability other than that allowed by the Municipal Finance Management Act, 2003 (Act 56 of 2003).

Accounting Policies

1.10 Financial instruments

Financial Assets

The Municipality classifies its financial assets in the following categories:
• Loans and receivables,
• Held to maturity and
• Available for sale.
The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. With regard to reclassifications of financial assets, the entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

Loans and recievables

Loans and receivables are non-derivative financial assets with fixedor determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than12 months after the reporting date. These are classified as non-current assets. The Municipality's loans and receivables comprise "trade receivables and other receivables" and cash and cash equivalents.

Interest bearing borrowing

Interest bearing borrowings are recognised initially at fair value, net of transaction costs incurred. It should also be added that interest bearing borrowings are classified as non-current and current liabilities. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method. Interest bearing borrowings are classified as non-current and current liabilities unless the municipality has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial asset within 12 months of the reporting date. Regular purchase and sales of financial assets are recognised on the trade date – the date on which the Municipality commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the Statement of Financial Performance.

Offsetting of financial assets and liabilities

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when and only when:
a) The Municipality has a legally enforceable right to set off the recognised amount; and
b) The Municipality intends either to settle on a net basis, or realise the asset and settle the liability simultaneously.
c) In accounting for a transfer of a financial asset that does not qualify for derecognition, the Municipality will not offset the transferred asset and the associated liability.

Derecognition

Financial assets are derecognised when the right to receive cash flows from the investments have expired or have been transferred, and the municipality has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost.

Impairment of financial assets

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified. Impairment losses recognised in the Statement of Financial Performance on equity instruments are not reversed through the Statement of Financial Performance..

Disposal

Accounting Policies

1.10 Financial instruments (continued)

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Counterparty exposure

The Municipality limits its counterparty exposure arising from money market by only dealing with well established financial institutions.

Interest Bearing Borrowings

Interest bearing borrowings are recognised initially at fair value, net of transaction costs incurred. It should also be added that interest bearing borrowings are classified as non-current and current liabilities. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest method. Interest bearing borrowings are classified as non-current and current liabilities unless the municipality has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Trade and other receivables

Accounts receivable are carried at anticipated realisable value. The carrying amount of the asset is reduced through the use of a provision for bad debt account, and the amount of the loss is recognised in the Statement of Financial Performance. When a trade receivable is deemed uncollectible, it is written off against the provision for bad debt account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Statement of Financial Performance.An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts with regard to arrangement of consumer debtors are classified as long-term receivables.

Trade and other payables

Trade Creditors are paid within 30 Days. The Municipality does not discount the creditors and as a result we have not factored any discounting into the value of tradecreditors and the face value is taken as invoice value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Finance charges on bank overdrafts are expensed as incurred.

1.11 Provisions

Liabilities for annual leave are recognised as they accrue to employees.
Provision is based on the potential liability (value of leave credits as at 30 June) of the Municipality.

Provisions are recognised when the municipality has a present, legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources embodying economics benefits will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at year end adjusted to reflect the best current estimate.

1.12 Revenue from exchange transactions

"Revenue is derived from grants from other tiers of government, trading activities and other services provided. Revenue comprises the fair value of the consideration received or receivable in the ordinary course of activities.Revenue is shown net of value-added tax, returns, rebates and discounts.Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest earned on investments

Interest earned on investments is recognised on a time proportionate basis that takes into account the effective yield on the investment

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.14 Conditional Grants & Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. A liability is recognised when the criteria, conditions or obligations have not been met.

1.15 Borrowing costs

Borrowing costs resulting from fionancing of capital projects during the period of construction are capitalised into the asset developed. Any other borrowing costs are recognised as an expense in the Statement of Financial Performance.

1.16 Value Added Tax

The Municipality accounts for Value Added Tax on the cash basis.

Accounting Policies

1.17 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act, 2003(Act 56 of 2003).

Unauthorized expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act, 2003 (Act 56 of 2003), the Municipal Systems Act, 2000 (Act 32 of 2000), the Public Office Bearers Act, 1993 (Act 20 of 1998) or in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance

1.19 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Taxation

Municipality is exempt from tax in terms of section 10(1)cB(i)(ff) of the Income Tax Act.

1.21 Investment property

Investment Property consists of a building developed to generate rental revenue and boost economic development within the Municipality. The property is carried at cost less accumulated depreciation or impairment over its useful life. Rental revenue is recognised in the statement of performance when it is due or recieved.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

1.22 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Accounting Policies

1.23 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality

GRAP 18 Segment reporting - issued March 2005
GRAP 21 Impairment of Non - cash generating assets - issued March 2009
GRAP 23 Revenue from Non - Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of cash - generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued july 2008
GRAP 104 Financial Instruments - October 2009

Application of all the above GRAP standards will be effective from a date to be announced by the minister of finance. This date is not currently available.

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 36 Impairment of assets - amended version effective 1 January 2010

IAS 39 Financial Instruments: Recognition and Measurement - amended version effective 1 January 2010

Management has considered all of the above - mentioned GRAP standards issue but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flow of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Prior period errors

Provision for leave pay accrual was inccorectly calculated.

Correction of Finance lease opening balance.

The correction of the error(s) results in adjustments as follows:

Cash flow statement

Leave Accrual		
Balance previously reported	-	947,063
Leave Provision not accounted for	-	37,867
Restated balance	**-**	**984,930**
Finance Lease		
Balance previously reported	-	228,258
Finance lease opening balance adjustment	-	(103,538)
Restated balance	**-**	**124,720**
Restatement of surplus previously reported		
Surplus previously reported	-	46,137,258
Leave provision	-	(37,867)
Finance Lease	-	103,538
Surplus for the year restated	**-**	**(46,202,929)**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

3. Other financial liabilities

Long term loans		
FNB	9,533,871	10,697,279
	9,533,871	10,697,279
	-	-
Non-current liabilities		
Long term loans	8,898,177	9,922,362
Current liabilities		
Long term loans	635,694	774,917
	8,898,177	9,922,362
	635,694	774,917
	9,533,871	**10,697,279**

4. Lease obligation

Minimum lease payments due		
- within one year	155,845	91,565
- in second to fifth year inclusive	464,377	263,205
Present value of minimum lease payments	**620,222**	**354,770**
Non-current liabilities	296,297	124,720
Current liabilities	124,859	52,377
	421,156	**177,097**

5. Trade and other payables from exchange transactions

Trade payables	3,107,264	1,056,979
Uncleared Cheques	1,328,428	1,341,849
Ilembe creditors	22,027	22,027
Accrued leave pay - Non Exchange	1,645,420	947,063
Petrol Card Accruals	22,712	-
Other payables - Control Accounts	12,629	-
Refunds (Property Rates Debtors) - Non Exchange	8,581	-
VW Mhlongo - Non Exchange	30,000	-
Retantion	1,343,962	95,156
	7,521,023	**3,463,074**

Comparative amount relating to retantion was previously reported on unspent grants.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

6. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Anti - Corruption	134,500	134,500
Arts and Craft	26,702	78,947
CCJC Woman	4,050	4,050
Capacity Support Grant	70,190	70,190
Feasibility Study	39,261	39,261
Financial Management Grant	218,222	520,175
GIS Fund	246,468	246,468
IDP Grant	9,000	14,000
Induction Training Grant	10,745	10,745
Infrastructure Investment Plan	14,622	14,622
Unspent public contributions and donations	8,502	15,419
Internal Controls	150,000	150,000
Kwashushu Hotsprings	-	500,000
Local Govn SETA	223,218	173,587
MAP Project Consolidated	506,387	387,791
MDP Capacity Building	32,715	189,626
MPRA-Ilembe	28,869	28,869
MSIG IDP Grant	1,253	1,253
MSIG PMS	5,254	32,359
Maphumulo Nursary	-	421,275
Municipal Infrastructure Grant	-	793,770
Municipal System Improvement Grand	657,870	259,095
Operational Support MPCC	405,261	500,000
Project Consolidated	127,419	127,419
Project Rates Implementation	1,409	1,409
Public Participation	3,168	42,495
Sport grant	1,288,500	-
Titanium Mining	100,000	100,000
Urban Design Framework	17,193	17,193
Valuation Roll	370,000	370,000
	4,700,778	**5,244,518**

See APPENDIX D for reconciliation of grants from other spheres of governmentThese amounts are invested in a ring-fenced investment until utilised. Request has been made to ProvincialTreasury Office for unutilized grants that remain as balance from prior year to the value of R1 315 979 to be spend on the other projects.

7. Property, plant and equipment

	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Buildings	26,083,914	(2,035,231)	24,048,683	12,086,559	(1,470,671)	10,615,888
Plant and machinery	3,882,736	(1,738,315)	2,144,421	3,349,137	(1,320,601)	2,028,536
Furniture and fixtures	887,304	(440,565)	446,739	683,461	(401,842)	281,619
Motor vehicles	1,220,685	(526,024)	694,661	834,885	(402,625)	432,260
Office equipment	745,390	(220,689)	524,701	269,952	(182,605)	87,347
IT equipment	412,972	(195,364)	217,608	421,763	(184,106)	237,657
Infrastructure	26,637,145	(3,009,992)	23,627,153	15,439,601	(1,619,183)	13,820,418
Capital work in progress	11,219,969	-	11,219,969	6,656,604	-	6,656,604
Total	**71,090,115**	**(8,166,180)**	**62,923,935**	**39,741,962**	**(5,581,633)**	**34,160,329**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Buildings	10,615,888	8,762,129	-	5,235,226	(564,560)	24,048,683
Plant and machinery	2,028,536	533,600	-	-	(417,714)	2,144,422
Furniture and fixtures	281,619	240,131	(5,085)	-	(69,926)	446,739
Motor vehicles	432,260	385,800	-	-	(123,398)	694,662
Office equipment	87,347	485,951	(3,009)	-	(45,589)	524,700
IT equipment	237,657	142,164	(88,478)	-	(73,735)	217,608
Infrastructure	13,820,418	9,776,166	-	1,421,378	(1,390,809)	23,627,153
Capital work in progress	6,656,604	11,219,969	-	(6,656,604)	-	11,219,969
	34,160,329	**31,545,910**	**(96,572)**	**-**	**(2,685,731)**	**62,923,936**

Assets subject to finance lease (Net carrying amount)

Leasehold property	119,211	-

The Municipality has taken advantage of the transitional provisions as set out in paragraph 75 and 78 of GRAP 17. Interms of par 78, the Municipality is not required measure clasess of PPE for reporting periods beginning on or after the date within 3 years following the date of initial adoption of the standard of GRAP.

8. Investment property

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
MPCC Building	13,107,063	(764,580)	12,342,483	13,107,063	(109,227)	12,997,836

Reconciliation of investment property - 2010

	Opening balance	Depreciation	Total
MPCC Building	12,997,836	(655,353)	12,342,483

Since there is no willing buyer and seller, council consider fair value to approximatly equate to cost.

9. Intangible assets

	2010			2009		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	722,672	(93,118)	629,554	100,342	(42,277)	58,065

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Amortisation	Total
Computer software, other	58,065	622,330	(50,841)	629,554

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

10. Other financial assets

Available-for-sale		
ABSA Call Account	26,310	188,058
Terms and conditions		
FNB 2	1,508,211	4,833,464
Terms and conditions		
FNB 4	-	7,451,644
Terms and conditions		
ABSA 9	-	772,218
Terms and conditions		
Nedbank Call Account	11,070	-
Terms and conditions		
FNB 1	275,300	263,616
Terms and conditions		
	1,820,891	**13,509,000**
	-	-
	-	-
	1,820,891	13,509,000
	-	-
	-	-

Current assets		
Available-for-sale	1,820,891	13,509,000
Non-current assets	-	-
Current assets	1,820,891	13,509,000

The Municipal Financial Management Act, 2003 (Act 56 of 2003) requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty interest rate to meet commitments.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

10. Other financial assets (continued)

Cash investments

Account Description & Number	Opening Balance	Deposits	Interest	Payments	Closing Balance
FNB - Investment A/C #:71044342667	263,616	-	11,685	-	275,301
FNB -Investment A/C #:74105603986	4,833,464	-	263,623	3,588,874	1,508,213
Nedbank-Investment A/C Account # 4053523279	1,000,000	-	11,070	1,000,000	11,070
FNB -Investment A/C Account #:62207539795	7,451,644	2,000,000	212,499	9,664,143	-
ABSA -Investment A/C Account #: 206822330	772,218	-	43,133	815,351	-
ABSA Call A/C #: 915847532	188,058	815,347	22,902	1,000,000	26,307
	14,509,000	**2,815,347**	**564,912**	**16,068,368**	**1,820,891**

11. Long term receivables

Long term recievables - Non-current portion	78,616	71,257
Long term recievables - Current portion	-	-
Less: Provision for bad debts	-	-
	78,616	**71,257**

12. Trade and other receivables from exchange transactions

Employee costs in advance	46,061	18,177
IEC	311	311
Neblon Construction	-	48,358
Game Stores	13,124	13,124
Rental	24,225	107,609
Ilembe rural development grant	100,000	100,000
V Mhlongo	44,411	2,452
Gijima agricultural sect or plan grant	8,020	8,020
SARS - PAYE	884,104	-
Provision for doubful debts	(3,330,543)	(215,759)
T & C Rainbow Security Services	84,200	-
Government subsidies	4,153,238	-
Department of Human Settlement	55,935	-
	2,083,086	**82,292**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	215,759	18,037
Provision for impairment	3,114,784	197,722
	3,330,543	**215,759**

13. VAT receivable

VAT	2,572,370	984,353

14. Consumer debtors

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
14. Consumer debtors (continued)		
Gross balances		
Rates	2,376,110	-
Less: Provision for debt impairment		
Rates	(1,782,034)	-
Net balance		
Rates	594,076	-
Rates		
31 - 60 days	255,300	-
61 - 90 days	337,776	-
91 - 120 days	1,000	-
	-	**-**
Reconciliation of debt impairment provision		
Contributions to provision	(1,782,034)	-
15. Government grants and subsidies Realised		
Agri Sector Plan Gijima KZN	-	1,215
Art & Craft	60,866	-
CCJC Woman	-	175,950
Corrido Development	-	500,000
Equitable share	27,395,003	20,656,870
Financial Management Grant	1,053,761	347,622
Housing Sector Plan	-	95,850
Human Resource System	-	83,000
IDP Grant	5,000	77,042
Inter - Departmental Monitoring	6,917	4,228
KwaShushu Hotsprings	2,538,454	-
Local Government SETA	1,170	16,184
MAP Project Consolidated	281,404	34,300
MDP Capacity Building	156,911	208,417
MFMA Grant	-	73,335
MSIG PMS	27,105	-
Maphumulo Nursary	520,573	-
Municipal Infrastructure Grant	17,144,256	7,897,082
MunicipalSystem Improvement Grant	510,021	367,773
Operational Support MPCC	94,739	-
Project Consolidated	-	1,653,581
Public Participation	42,827	291,931
Urban Design Framework	-	39,058
	49,839,007	**32,523,438**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of , which is funded from the grant.

Capacity Support Grant

Balance unspent at beginning of year	70,190	70,190

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

15. Government grants and subsidies Realised (continued)

Conditions still to be met - remain liabilities (see note 6)

Provide explanations of conditions still to be met and other relevant information

Feasibility Study

Balance unspent at beginning of year	39,261	39,261

Conditions still to be met - remain liabilities (see note 6)

Provide explanations of conditions still to be met and other relevant information

IDP Grant

Balance unspent at beginning of year	14,000	91,042
Conditions met - transferred to revenue	(5,000)	(77,042)
	9,000	**14,000**

Municipal System Improvement Grant

Balance unspent at beginning of year	259,095	19,715
Current-year receipts	908,797	607,153
Conditions met - transferred to revenue	(510,022)	(367,773)
	657,870	**259,095**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

15. Government grants and subsidies Realised (continued)

Financial Management Grant

Balance unspent at beginning of year	520,175	368,895
Current-year receipts	751,808	500,000
Conditions met - transferred to revenue	(1,053,761)	(348,720)
	218,222	**520,175**

This grant is funded by National Treasury to assist Local Government Pilot Municipality with Financial Management and Budget Reforms, as part of the National Reform program. No funds have been withheld.

MFMA Grant

Balance unspent at beginning of year	-	73,335
Conditions met - transferred to revenue	-	(73,335)
	-	**-**

Retention

Balance unspent at beginning of year	-	76,463
Current-year receipts	1,410,775	18,693
Conditions met - transferred to revenue	(1,410,775)	(95,156)
	-	**-**

MDP Capacity Building

Balance unspent at beginning of year	189,626	398,004
Conditions met - transferred to revenue	(156,911)	(208,378)
	32,715	**189,626**

MAP Project Consolidated

Balance unspent at beginning of year	387,791	22,091
Current-year receipts	400,000	400,000
Conditions met - transferred to revenue	(281,404)	(34,300)
	506,387	**387,791**

Project Consolidate

Balance unspent at beginning of year	127,419	1,781,000
Conditions met - transferred to revenue	-	(1,653,581)
	127,419	**127,419**

Inter Departmental Monitoring

Balance unspent at beginning of year	15,419	19,647
Conditions met - transferred to revenue	(6,917)	(4,228)
	8,502	**15,419**

Municipal Infrastructure Grant

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
15. Government grants and subsidies Realised (continued)		
Balance unspent at beginning of year	793,770	-
Current-year receipts	13,335,000	8,690,852
Conditions met - transferred to revenue	(17,144,256)	(7,897,082)
Impairment	3,015,486	-
	-	**793,770**

This grant is used to construct roads and sewerage infrastructure as part of the capital expenditure (included in the roads and sewerage votes in Appendix B). No funds have been withheld.

Local Government SETA

Balance unspent at beginning of year	173,587	142,327
Current-year receipts	50,801	47,445
Conditions met - transferred to revenue	(1,170)	(16,185)
	223,218	**173,587**

Agriculture Sector Plan

Balance unspent at beginning of year	-	1,215
Conditions met - transferred to revenue	-	(1,215)
	-	**-**

Arts and Craft

Balance unspent at beginning of year	78,947	15,737
Current-year receipts	8,621	63,210
Conditions met - transferred to revenue	(60,866)	-
	26,702	**78,947**

Public Participation

Balance unspent at beginning of year	42,495	334,427
Current-year receipts	3,500	-
Conditions met - transferred to revenue	(42,827)	(291,932)
	3,168	**42,495**

Human Resource System

Balance unspent at beginning of year	-	83,000
Conditions met - transferred to revenue	-	(83,000)
	-	**-**

Corrido Development

Current-year receipts	-	500,000
Conditions met - transferred to revenue	-	(500,000)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

15. Government grants and subsidies Realised (continued)

Urban Design Framework

Balance unspent at beginning of year	17,193	56,251
Conditions met - transferred to revenue	-	(39,058)
	17,193	**17,193**

Housing Sector Plan

Balance unspent at beginning of year	-	3,450
Current-year receipts	-	92,400
Conditions met - transferred to revenue	-	(95,850)
	-	**-**

Kwashushu Hotsprings

Balance unspent at beginning of year	500,000	-
Current-year receipts	1,000,000	500,000
Conditions met - transferred to revenue	(2,538,454)	-
	(1,038,454)	**500,000**

CCJC Woman

Balance unspent at beginning of year	4,050	180,000
Conditions met - transferred to revenue	-	(175,950)
	4,050	**4,050**

Conditions still to be met - remain liabilities (see note 6)

Provide explanations of conditions still to be met and other relevant information

16. Revenue

Property rates	3,097,143	-
Rental of facilities & equipment	393,318	196,620
Government grants & subsidies	49,839,007	32,523,438
	53,329,468	**32,720,058**

The amount included in revenue arising from exchanges of goods or services are as follows:

Rental of facilities & equipment	393,318	196,620

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	3,097,143	-
Government grants & subsidies	49,839,007	32,523,438
	52,936,150	**32,523,438**

Lease Revenue

Not later than 1 year:	271,945	-
Later than 1 year but not later than five years	1,249,194	-

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

16. Revenue (continued)

	1,521,139	**-**

17. Property rates

Rates received

State Owned	8,286,400	-
Ingonyama Trust Board	4,650,975	-
PSI	3,589,750	-
Commercial	1,372,950	-
Municipal Properties	329,550	-
Churches	72,000	-
Churches	58,300	-
Less: Income forgone	(15,262,782)	-
	3,097,143	**-**

Property rates levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 with effect from 1 July 2009.
Randage applicable to all properties equal to 0.05.
Rebates amount to 30% for all categories except for Ingonyama Trust Board which is 50%.
Only 25% is charged during the first year, therefore 75% is forgone.

18. Investment revenue

Interest revenue		
Investments	564,910	1,417,688
	-	-
	564,910	1,417,688

19. Other income

Tender document sales	144,900	-
Discount received	443	97,708
Other income	123,534	-
Administration fees and commission	11,378	-
Vat recovery	97,725	-
	377,980	**97,708**

20. Employee related costs

Basic	6,417,583	4,220,279
Medical aid - company contributions	324,959	224,981
UIF	59,097	-
WCA	150	-
SDL	89,139	95,435
Post-employment benefits - Pension - Defined contribution plan	501,314	628,927
Supplementary Allowance	(14,973)	-
Car allowance	332,816	629,129
Housing benefits and allowances	75,876	101,001
Cellphone Allowance	23,000	-
Group Life	8,518	29,218
	7,817,479	**5,928,970**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

20. Employee related costs (continued)

Remuneration of Municipal Manager

Annual Remuneration	499,290	485,154
Travel Allowance	196,587	162,687
Housing	6,000	6,000
Other allowances	25,668	25,668
Contributions to UIF, Medical and Pension Funds	117,238	79,885
	844,783	**759,394**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

20. Employee related costs (continued)

Remuneration of Chief Finance Officer

Annual Remuneration	516,080	328,102
Travel Allowance	180,000	135,000
Other allowances	-	13,912
Contributions to UIF, Medical and Pension Funds	-	-
	696,080	**477,014**

Renumeration of the Director:Support Services

Annual Remuneration	414,956	45,423
Travel Allowance	135,600	26,333
Housing	-	558
Other allowances	-	1,642
Leave encashment	-	22,146
Contributions to UIF, Medical and Pension Funds	93,544	3,920
	644,100	**100,022**

Renumeration of the Director:Strategic Services

Annual Remuneration	-	174,529
Travel Allowance	-	70,000
Contributions to UIF, Medical and Pension Funds	-	3,412
	-	**247,941**

Employee Benefit

Total contribution by Maphumulo Local Municipality amount to R645 529.57

The Municipality's employees are menbers of Natal Joint Municipal Pension Fund (a State and Multi Employer Define Benefit Plan). Along with other Municipalities in the province of Kwazulu Natal, Maphumulo Local Municipality participates in a multi employer defined plan. Because the plan exposes the participating entities to acturial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. Maphumulo Local Municipality therefore accounts for the plan as if were defined contribution plan per Exposure Draft No. 49.

21. Remuneration of councillors

Mayor	400,121	439,717
Councillors	2,910,751	2,896,776
Cellphone Allowance	229,125	206,193
Councillors Medical Aid Contributions	82,697	63,001
Councillors Pension fund Contributions	239,341	232,152
	3,862,035	**3,837,839**

22. Cash Paid to Suppliers and Employees

Long term loans	1,141,927	39,072

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

23. General expenses

Advertising	98,527	116,190
Audit Committee	70,476	82,566
Bad Debts	346,679	150,009
Bank charges	47,706	72,167
Billing charges	8,825	5,690
Cleaning	457,445	128,947
Community Awareness	300,518	428,230
Consulting and professional fees	958,793	94,503
Electricity and Water	699,286	213,430
Emergency relief & disaster	750	1,904
Entertainment	196,530	94,681
Leave Reserve	1,043,373	518,825
Contribution to bad debts provision	4,896,819	-
Free Basic Services	274,011	426,076
Fuel and oil	425,546	436,044
Insurance	155,493	166,336
Insurance - UIF	-	43,139
Internal Audit	667,165	42,114
LED Projects	43,941	113,608
Licences	118,543	33,224
Magazines, books and periodicals	-	1,469
Mayoral Office	295,767	250,660
Medical Exams	4,750	6,600
Membership fees	3,282	60,717
Postage and courier	1,586	1,245
Printing and stationery	224,486	194,645
Rent - Plant, Vehicles and Other	528,126	572,488
Security	1,452,132	541,012
Sports	945,677	379,308
Stores and Materials	-	1,750
Subsistence and travel Conferences	353,842	290,518
Telephone and fax	425,766	456,450
Training	237,959	46,608
Uniforms	5,817	8,858
Venue expenses	-	(2,452)
Workshop / Conferences / Meeting	314,794	229,176
	15,604,410	**6,206,735**

24. Depreciation and amortisation

Property, plant and equipment	3,391,926	1,672,124

25. Cash generated from operations

Surplus	15,880,140	10,411,995
Adjustments for:		
Depreciation and amortisation	3,391,926	1,672,124
Gain on sale of assets and liabilities	-	1,190,945
Loss on scrap of assets	96,573	-
Contribution to / from provisions	-	307,397
Changes in working capital:		
Trade and other receivables from exchange transactions	(2,000,794)	406,982
Consumer debtors	(594,076)	-
Trade and other payables from exchange transactions	3,991,208	(1,420,617)
VAT	(1,588,017)	-
Unspent conditional grants and receipts	(543,740)	(947,917)

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

25. Cash generated from operations (continued)

	18,633,220	**11,620,909**

26. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	417	901
Bank balances and cash	1,214,469	3,920,864
	1,214,886	**3,921,765**

Current Accounts Held by the Municipality

Account Description & Number	Opening Balance	Deposits	Interest	Payments	Closing Balance
FNB Current Account # 62023868998	3,017,339	65,891,134	1,477	68,648,949	261,001
ABSA Current Account # 4056102866	903,525	1,150,451	14,721	1,115,229	953,468
	3,920,864	**67,041,585**	**16,198**	**69,764,178**	**1,214,469**

27. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	9,533,871	10,697,279
Used to finance property, plant and equipment	(8,000,000)	(3,697,279)
	1,533,871	**7,000,000**

28. Taxation

No provision for tax has been made as the municipality is exempt in terms of Section 10 (1) (cM) of the Income Tax Act.

29. Commitments

Authorised capital expenditure

Approved and contracted for:

• Infrastructure	6,978,020	3,246,592
• Land & Buildings	-	8,583,045
• Other	-	40,050
	6,978,020	**11,869,687**

Approval and not yet contracted

• Infrastructure	-	100,000
• Land & Buildings	-	190,500
	-	**290,500**

This committed expenditure relates to property and payment made subject to approval of the project.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

30. Contingencies

The Municipality concluded an agreement with Fijutsi Siemens to provide a financial system, manage the migration to the new system and provide adequate training to staff on all modules purchased with the new system. The agreement also included managing the conversion process to GRAP and providing the municipality with 2009/10 GRAP compliant Annual Financial Statements. The contract was for R 843,000 exclusive of VAT, and incoporated all the services as per the agreement. An Invoice of R1,200 000 was submitted by the service provider however management refused to settle the invoice since management was of the opinion that the project was not implemented as per the agreement. Furthermore staff were not adequately trained as was required by the agreement. This lead to a dispute which may result in litigation between the the municipality and the service provider.A Guarantee of R 138,000 was provided to Eskom as colletaral for a deposit for provision of Electricity.

31. Financial Instruments

Exposure to currency, interest rate, credit risk and liquidity risks arise in the normal course of the Municipalities's business

Financial risk management

The Municipalities has exposure to the following risks from its use of financial instruments:

Liquidity Risk
Interest Rate Risk
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks.Further quantitative disclosures are included throughout these financial statements

The Council and the Accounting Officer have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

Financial Assets		
Total assets	7,070,423	14,575,645
Investments	1,820,891	13,508,999
Trade and other receivables	5,249,532	1,066,646
Cash and cash equivalents	1,214,886	3,921,765
Financial Liabilities		
Total liability	22,176,828	17,293,056
Loans Received	9,533,871	10,697,279
Trade & other Payables	7,521,023	1,079,006
Finance Lease	421,156	177,097
Unspent Grants	4,700,778	5,339,674

The Accounting Officer is of the opinion that the values reflected in the Financial statements are a true reflection of Fair values of both the Financial Assets and Liabilities.

Basis of determining Fair value

Trade and other Receivables/Payables

The fair value of trade & other recevable is estimated to be the actual receipts exepected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

31. Financial Instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Municipality will encounter difficulty in raising funds to meet its commitments. The Municipality's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Municipality's reputation. The bulk portion of investments held are short term and can be converted when required. The loan raised was raised for the development of the Municipal Offices at a fixed rate through out the period of repayment
Total balance of liquidity risk R9 202 387.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings and allocations however the long term loan's interest rate is fixed throughout the term of repayment.

Balances exposed to the interest rate risk

Investments	1,820,891	13,245,383
Cash & Cash investment	1,214,886	3,921,765
	3,035,777	**17,167,148**

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Trade and other receivables from exchange transactions	2,083,086	82,292
VAT receivable	2,572,370	984,353
Consumer debtors	594,076	-
	5,249,532	**1,066,645**

The ageing of trade receivables at the reporting date was

	2010 Gross	**2010 Impairment**	**2009 Gross**	**2009 Impairment**
Current	1,563,637	969,561	888,828	-
Pat Due: 0 - 30	-	-	17,965	-
Pat Due: 0 - 120	81,247	81,247	30,158	15,182
More than 120	731,227	731,227	129,142	129,142

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

32. Related parties

The Muncipal Manager is the chairperson of the IEC within the Municipal jurisdiction. The IEC has rented office space from the municipality.

Related party transactions

The transactions entered into during the year by the Municicpality and the IEC are as follows:		
Rental Income for the year	25,797	25,797
Accounts receivable from the IEC	6,760	12,435

There were no other related parties transactions during the year.

33. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Council contributions	-	-
Amount paid - current year	-	60,717
Other	-	-
	-	**60,717**

Audit fees

Opening balance	-	3,078
Current year subscription / fee	843,844	1,029,216
Amount paid - current year	(843,844)	(1,032,294)
	-	**-**

VAT

VAT receivable	2,572,370	984,353

VAT output payables and VAT input receivables are shown in note 13.

All VAT returns have been submitted by the due date throughout the year.

PAYE and UIF

Current year payroll deductions	2,859,383	1,688,819
Amount paid - current year	(2,859,383)	(1,688,819)
	-	**-**

Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions and Councillors'	785,915	1,672,818
Amount paid - current year	(785,915)	(1,672,818)
	-	**-**

34. Operating lease

The amounts of minimum lease payments under non-cancellable operating leases in respect of photocopier equipment are as follows for:

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

34. Operating lease (continued)

Equipment		
- Within one year	27,180	32,520
- In second to fifth year inclusive	27,180	97,560
	54,360	**130,080**
Vehicles		
- Within one year	104,414	51,408

35. Unauthorised expenditure

Unauthorised expenditure awaiting authorization	15,195,688	-

Incident
Overspending on Operating expenditure amounted to R1 182 503 was due to finance charges and repair and maintanance relating to MPCC.
Over expenditure was incured due to finance charges and repair and maintanance relating to MPCC.

Overspending on capital expenditure amounted to R14 013 185 as a results of addition in excess of adjusted budget.
The reason for over expenditure is that the budget was not rolled over in line with the approval of R10 000 000 loan from First National Bank.

Action
Part of the amount will be recovered from MIG and are disclosed as debtors in note 12.
Unauthorised expenditure will be taken to council for approval subsequent to adjustment budget.

36. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	-

37. Irregular expenditure

Opening balance	-	-
Add: Irregular Expenditure - current year	2,845,883	-
Less: Amounts condoned	-	-
	2,845,883	**-**

Details of irregular expenditure – current year

Irregular expenditure occured as a results of non compliance with section 17 1 (C) of SCM regulation and expenditure is not recoverable, therefore it will be taken to the council for approval.	1,988,375	-
Non compliance with section 22(2) of the regulation, expenditure incurre was due to the fact that the news paper used to advertise the tenders was instracted on the 8th as per order form to advertise on the 9th, however the advert only appeared on the paper on the 11th which did not cover the 14 days as requiered by the section, therefore the incident was beyond municipality control, however where the contract was approved the amount of deviation has been disclosed.	527,508	-

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

37. Irregular expenditure (continued)

Irregular expenditure amounting to R330 000 relates to section 32 of suply chain management, during world cup council resolved that municipality should do something for the public and resolution is available for inspection.	330,000	-
		-
		-

38. Deviation from supply chain management regulations

Deviation occured as a results of applying section 36 0f suply chain management. 1,258,490

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

39. Retirement Benefits Information

The Municipality's employees are menbers of Natal Joint Municipal Pension Fund (a State and Multi Employer Define Benefit Plan). Along with other Municipalities in the province of Kwazulu Natal, Maphumulo Local Municipality participates in a multi employer defined plan. Because the plan exposes the participating entities to acturial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual municipalities participating in the plan. Maphumulo Local Municipality therefore accounts for the plan as if were defined contribution plan per Exposure Draft No. 49.

Total contribution by Maphumulo Local Municipality amount to R 645 529.57

40. Reconciliation of budget surplus/(deficit) with the surplus/(deficit) in the statement of financial performance

Net surplus per the statement of financial performance	15,880,140	-
Adjustments:	-	-
Proparty rates	1,902,857	-
Rental of facilities and equipment	(172,722)	-
Interest earned	869,877	-
Other income	(317,980)	-
Grants and subsidies	(1,202,334)	-
Employee related costs	(2,537,439)	-
Remuneration of councillors	(326,467)	-
Repairs and maintanance	382,060	-
Depreciation not budgeted for	3,391,926	-
General expenditure	4,390,519	-
Finance cost	1,131,927	-
General expenditure	(2,668,796)	-
Audit fees	843,844	-
Grand operating expenditure	2,305,574	-
Net surplus per approved budget	**(23,872,986)**	**-**